Commercial Service Caribbean Region
Santo Domingo

Market Potential for Building Products

Market Overview

The construction activity, after remarkable growth in past years, experienced dramatic decrease from 2002 to 2004. The sector ended with a negative grow of -6.3% in 2004. Nevertheless, experts in the sector expect that the construction industry will emerge as one of the leading sectors in the Dominican economy in 2006, depending on the ability of the Dominican Government to emerge from the 2003-2004 economic crisis.

This economic recession directly affected the industry sectors with the most potential in the Dominican market. Construction has been one of the most affected sectors. Firms in this sector have indicated that most of the projects are on hold and that they are barely finishing the ones in the final stage.

Techniques and materials used in homebuilding in the Dominican Republic differ from those used in U.S. Houses in the major cities are primarily made of cement and block. For commercial and apartment buildings, metal structures, steel beams, and concrete structures are mainly used. In rural areas, where incomes are extremely low, houses are commonly made of wood with aluminum roofs.

U.S. products dominated the Dominican import market with an approximate 35 % share in both 2003 and 2004. We expect the U.S. market share to maintain this level through 2005. U.S. exports of building products to the Dominican Republic were $90 million in 2003, increasing to $96.5 million in 2004, approximately a 7% increase.

- **Statistical Data**

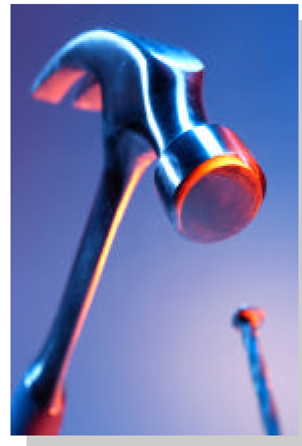
Data Table (Millions of U.S. Dollars)

		2002	2003	2004
A.	Total Market Size	316.1	270.0	280.3
B.	Total Local Production	15.2	13.7	10.8
C.	Total Exports	3.7	2.0	1.4
D.	Total Imports	304.6	258.3	270.9
E.	Imports from the U.S.	86.2	90.1	96.5

Exchange Rate used: 28.56. The above statistics are unofficial estimates.

At the retail sales level, Dominicans prefer seeing the product and expect reliable after-sales service. Quality and responsiveness in after-sales service are becoming increasingly important ingredients in effective marketing strategies. In sales of services and manufactured goods, Dominicans often rely on networking, as well as close family and personal relationships. These characteristics in turn create the need for local agents and distributors or direct, in-country operations to make and sustain these contacts.

In major cities, interior finishing represents a significant market potential for U.S. building products. Most houses have ceramic tile floors, some use parquet or even marble floors for the luxurious building apartments, which are becoming very popular among the upper-class in Santo Domingo.



Design and decoration of retail stores and office buildings are similar to those seen in large U.S. companies. They use the latest and finest building products to create an image of comfort and prestige. Drywall is a relatively new concept in the Dominican market, and currently is gaining popularity in office spaces.

If the U.S. and Dominican Congresses ratify DR-CAFTA, upon implementation of the agreement building products would access the Dominican market duty-free resulting in an elimination the nearly 30% import duty for US products. U.S. companies in the sector should closely monitor the status of the Free Trade Agreement (DR-CAFTA).

Best Sales Prospects

Best sales prospects include products used in the construction of low-to-medium cost housing, malls and commercial buildings; and public works projects, such as highways, bridges and marine ports. These are the industry sub-sectors that are expected to account for most of the construction activity in the short term.

According to the companies surveyed for this study the construction building products with the greatest demand during the next three years include:

- Plumbing and welding products
- Aluminum doors and windows
- Bathroom and kitchen fixtures
- Wood lumber and wood products
- Electrical fixtures
- Lighting products
- Roof products
- Asphalt mixtures
- Steel products
- Prefabricated structures

Competition

Key competitive factors in the construction industry are: price, payment terms, and delivery time. Quality and technical support are also important. The difference between importing and buying locally can come down to the numbers of days to deliver a product. The use of a stocking distributor is recommended.

- Domestic Production

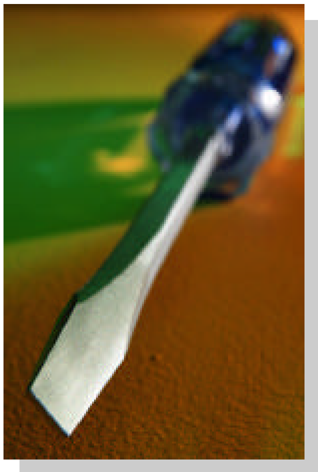
The local industry produces cement, cement block, mosaics, paint, and iron bars. In addition there are locally manufactured PVC pipes and connectors, sanitary ware, tanks, wood doors and windows, metal windows and frames, fiberglass products, sanitary and gas installations, and some electrical accessories.

Construction firms targeting the middle to upper classes, prefer imported building products because the higher quality.

- Third - Country Imports

According to experts, building products from other countries especially those from China, Taiwan, Korea and Hong Kong do not meet the same quality standards as products from U.S. or European countries. Asian building products are widely used in government projects such as hospital, schools and low-cost housing projects.

Asian low-tech products are competitive but heavy machinery products and accessories for the construction industry are mostly imported/ purchased from U.S. and European (Spain, Germany and Italy) sources. Japanese technology in heavy machinery is becoming increasingly popular.



- U.S. Market Position Share

The United States has maintained a leading position in the Dominican market and has an opportunity to increase its market share in the near future, despite increasing competition from Asia (China, Taiwan, Korea and Hong Kong) and Europe (Spain, Germany and Italy).

End-Users

The Dominican Republic's end users of building products are composed mainly of construction companies and small independent contractors, which supply construction services to both the public and private sectors. There is also a market for building products for residential use, which includes hand tools and other minor products like screws, hammers, nails, etc.

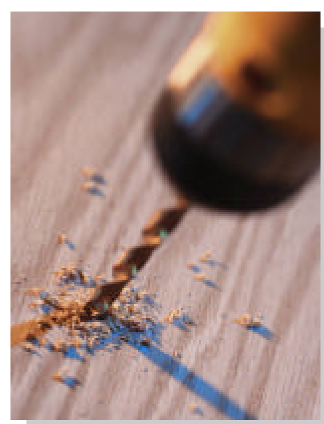
The public sector market consists basically of products for roads, bridges, dams and public buildings. After awarding a public sector construction contract at a specific price, the Dominican Government does not choose the building materials or products used in the project, usually the private sector contractor who won the contract does so. In order to be competitive in the bidding process, many contractors budget for low to medium quality building products. U.S. building products, therefore, are in less demand for public sector construction projects because of their higher prices.

The private sector market requires building products for houses, shopping centers, condominiums, office complexes, recreational buildings, hotels & resorts, and corporate building maintenance. The private sector in the Dominican Republic is heavily dependent on good quality imports for construction. Building products and materials range from the smallest of items to heavy machinery and equipment.

Construction outside of Santo Domingo and Santiago, the Dominican Republic's second largest city, is not growing at a considerably rapid pace, probably because of the recent Dominican economic recession. Although in the medium-sized cities of La Romana, Puerto Plata and Higuey, there is a relatively significant demand for construction because of the Free Trade Zones and tourism.

The private sector accounts for around 70% of the total demand for building products in Dominican Republic. The public sector accounts for the remainder.

Market Access



The local construction sector is open to foreign companies interested in selling their products in the Dominican market. U.S. products in general are perceived by end-users to be of the best quality. There are several methods for U.S. exporters to enter the Dominican market. One can use locally appointed distributors, a wholly-owned subsidiary, joint venture partners, or Dominican importers and wholesalers who also own retail outlets.

There are no major trade barriers for the importation of building products. The dollar exchange rate is responsive to market forces.

There are no regulations for the enforcement of quality, technical, or safety standards. U.S. standards are currently accepted and respected by the purchasing entities.

Although the import tariff rate for this kind of equipment varies from 10 to 30 percent over the CIF value, the effective tax rate can go over 40 percent. This is a result of the application of other taxes such as the 16 percent value added tax (ITBIS), and the exchange surcharge tax of 13 percent.

Direct Imports Costs Template

Base Price	**US$100.00**
Exchange to pesos (US$1.00=RD$28.56*) (*) Official Exchange rate at Dominican Customs 5/25/05	RD$2,856.00
Freight & Insurance (average 8%)	RD$228.48
Dutiable Base = CIF in RD$ pesos	RD$3,084.48
20 percent Duty Rate (**Arancel)	RD$616.90
- Exchange surcharge 13 of CIF	RD$400.98
VAT Base	RD$4,102.36
VAT=ITBIS 16 percent	RD$656.38
	RD$4,758.74
Freight Forwarders fees (1.5% on CIF)	RD$46.27
Bank Charges: - Draft of letter of credit 2% of CIF	RD$61.69
Landed Cost	RD$4,866.70 US$170.40

(**) All taxes are collected in Dominican pesos.

Distribution Channels

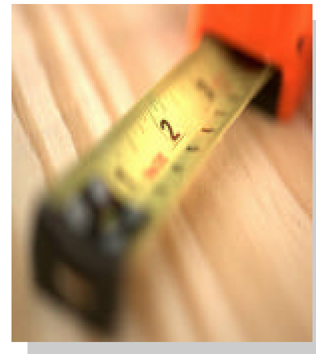
In the Dominican Republic the most common way to distribute building products is through direct importers, who also act as specialized retailers. Many of these distributors have branches all over the country to sell their products. Other small distributors, especially those that distribute products from Asia, do it through small retail stores with no branch capabilities. (These are known as “ferreterias”, similar to small hardware stores in U.S.). They sell all kinds of products, focusing on the inexpensive ones.

The larger building products chains distribute higher quality items. Competition is fierce, but known contractors prefer to go to the large distributors who offer them quality and large discounts on volume orders.

Building products distributors compete fiercely for all types of consumers. They aggressively advertise in the local media and undercut each other’s prices to increase sales.

Before appointing an agent or distributor in the Dominican Republic, or registering a firm as a foreign investment, U.S. firms should seek legal counsel, and are advised to become familiar with the Dominican Agents and Distributors Protection Law (Law 173 dated April 6, 1966). Interested companies may also request a copy of Law 173 from the U.S. Commercial Service at the U.S. Embassy in Santo Domingo.

Key Contacts



The Dominican Chamber of Construction (CADOCOM), along with the Dominican Association of Engineers and Architects (CODIA) are the largest and most important associations in the industry. Both associations promote, develop, and support building activity in the Dominican Republic. They have over a thousand members, including: construction companies, manufacturers of building products, contractors; architectural and engineering firms; building products distributors; and retailers.

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